

Message Text

LIMITED OFFICIAL USE

PAGE 01 OTTAWA 03659 102213Z

13

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /087 W

----- 064958

R 102129Z SEP 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1014

LIMITED OFFICIAL USE OTTAWA 3659

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJ: REACTION TO GOC WHITE PAPER ON BANK LEGISLATION

REF: OTTAWA 3574

1. SUMMARY: IN DISCUSSION WITH CHARTERED BANKS REPS IN MONTREAL ON SEPTEMBER 9, EMBOFF LEARNED THAT ONLY BANK OF MONTREAL WAS LARGELY DISSATISFIED WITH GOC WHITE PAPER ON BANKING LEGISLATION. EARLIER CONVERSATION WITH PRESIDENT OF MERCANTILE BANK REVEALED THAT BANK BELIEVES IT HAS COMMITMENT FROM GOC FOR GRANDFATHERING CITICORP'S INTEREST IN MERCANTILE. SOME BANK REPS WERE GUARDEDLY OPTIMISTIC RE FUTURE STATE OF CANADIAN ECONOMY BUT ALL WERE CONCERNED ABOUT ADVERSE EFFECTS OF GOC ANTI-INFLATION PROGRAM AND "OVER-VALUED" CANADIAN DOLLAR ON MANUFACTURING SECTOR OF ECONOMY. END SUMMARY.

2. IN SERIES OF MEETINGS IN MONTREAL ON SEPTEMBER 9, EMBOFF DISCUSSED WITH CHARTERED BANK REPS GOC WHITE PAPER ON BANKING LEGISLATION AND STATE OF CANADIAN ECONOMY. REPS WERE FROM ROYAL BANK, MERCANTILE BANK AND BANK OF MONTREAL. EMBOFF ALSO MET WITH
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OTTAWA 03659 102213Z

ECONOMIST FROM GREENSHIELDS, CANADIAN BROKERAGE FIRM,

WHO WAS PREPARING BRIEFING PAPERS FOR FIRMS' CLIENTS
ON WHITE PAPER, RECENT CHANGES TO GOC ANTI-INFLATION
GUIDELINES AND CURRENT STATE OF ECONOMY.

3. ROYAL BANK REP, WHO SAID HE WAS FORMER ASSISTANT
TO FINANCE DEPARTMENT ASSOCIATE DEPUTY MINISTER WILLIAM
HOOD, HAD RECENTLY WRITTEN SPEECH FOR BANK CHAIRMAN
MCLAUGHLIN ON WHITE PAPER. REP GAVE COPY OF SPEECH
TO EMBOFF SAYING IT REPRESENTED BANK'S VIEWS ON MATTER.
SPEECH IS GENERALLY FAVORABLE ON WHITE PAPER PROPOSALS
BUT DISAGREED WITH CERTAIN SECTIONS. BANK OPPOSES
PROPOSAL TO ALLOW PROVINCIAL GOVERNMENTS OWN UP TO
25 PERCENT OF CHARTERED BANKS ON GROUNDS PROVINCIAL
GOVERNMENTS HAVE "VAST PURCHASING POWER" AND "EXTENSIVE
PAYROOLS," THUS LESSENING COMPETITION. BANK ALSO
WANTED LOWER LEVELS OF RESERVES THAN THOSE PROPOSED IN
WHITE PAPER OR HAVE BANK OF CANADA PAY INTEREST ON
"SOME PART OF THE RESERVES." BANK ALSO TOOK ISSUE
WITH RESTRICTIONS PLACED ON INCOMING FOREIGN BANKS,
CALLING 15 PERCENT LIMITATION OF TOTAL COMMERCIAL
LENDING "DELIGHTFULLY VAGUE" AND "ADMINISTRATIVE
NIGHTMARE." BANK WOULD PREFER FOREIGN BANKS "OPERATE
ON SAME BASIS AS WE DO."

4. ROYAL BANK REP SAID HE HAS REPEATEDLY WARNED HOOD
OF ADVERSE EFFECTS ON CANADIAN MANUFACTURERS OF GOC
ANTI-INFLATION POLICY. SINCE YEAR AGO THERE HAS BEEN
SWING OF OVER 6 PERCENT IN CANADIAN DOLLAR VIS-A-VIS
US DOLLAR, DUE PRIMARILY TO HIGH INTEREST RATES IN
CANADA. WITH "OVER-VALUED" CANADIAN DOLLAR AND RIGID
PROFIT CONTROLS, CANADIAN MANUFACTURERS WERE SUFFERING
MOST OF ANY SEGMENT OF ECONOMY. REP SAID THAT ANTI-
INFLATION PROGRAM MUST BE FURTHER RELAXED IN ORDER
PREVENT MORE SERIOUS DAMAGE AND TO ENCOURAGE BUSINESS
INVESTMENT. REP WAS ALSO CONCERNED ABOUT GROWING
SERVICE PAYMENT DEFICIT AS RESULT OF OVERSEAS BORROWING
(TAKING ADVANTAGE OF LOWER INTEREST RATES IN U.S.),
AND SAID CANADA MAY HAVE TO DEVALUE DOLLAR.

5. BANK OF MONTREAL REPS WERE UNANIMOUS IN THEIR
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OTTAWA 03659 102213Z

CRITICISM OF BANKING WHITE PAPER ON GROUNDS OF IN-
CREASED FEDERAL REGULATION OF BANKING SYSTEM. THEY
SAID BANK HAD NOT ASSOCIATED ITSELF WITH BRIEF FILED
BY CANADIAN BANKERS' ASSN. BEFORE WHITE PAPER APPEARED,
BUT HAD SUBMITTED SEPARATE BRIEF ASKING FOR DEREGULA-
TION. THEY WERE CONCERNED ABOUT NEW POWERS GIVEN
CABINET TO SET RESERVE LEVELS ON CERTAIN DEPOSITS,
AND THEY DISLIKED PROPOSALS TO PREVENT BANKS

FROM SECURITIES UNDERWRITING. CLAIMING PRESENT SECURITIES SYSTEM IN CANADA "ARCHAIC," THEY CLAIMED BANKS COULD DO MUCH BETTER JOB AT LOWER COST TO PURCHASERS OF SECURITIES.

6. EMBOFF HAD HAD TELEPHONE CONVERSATION WITH MERCANTILE BANK PRESIDENT SEPTEMBER 8 ON WHITE PAPER AND THEREFORE TALKED WITH MERCANTILE REP ON STATE OF CANADIAN AND QUEBEC ECONOMIES. BANK PRESIDENT TOLD EMBOFF THAT HE HAD RECEIVED ASSURANCES FROM GOC OFFICIAL THAT CITICORP'S INTEREST IN MERCANTILE WOULD BE "GRAND-FATHERED" AND NOT SUBJECT TO RESTRICTIONS IN WHITE PAPER ON FOREIGN BANKS. IF NECESSARY, HE SAID, GRANDFATHER CLAUDE WOULD BE ADDED TO LEGISLATION. HE WAS OPTIMISTIC RE MERCANTILE'S FUTURE IN CANADA UNDER PROPOSED NEW BANKING LEGISLATION AND DIDN'T THINK PROPOSED RESTRICTION ON CHARTERED BANKS WOULD POSE PROBLEM FOR MERCANTILE. HE DOWNPLAYED ANY ADVERSE EFFECTS ON BANKING COMMUNITY OF PROPOSAL ALLOW CABINET SET CERTAIN RESERVE REQUIREMENTS.

7. MERCANTILE REP TOLD EMBOFF THAT HE THOUGHT GOC ANTI-INFLATION PROGRAM HAD WORKED TO ADVANTAGE OF CHARTERED BANKS IN FIRST HALF YEAR OF ITS OPERATION, BUT HE WAS LESS SANGUINE ABOUT IMMEDIATE FUTURE. HE TOO WAS WORRIED ABOUT PROGRAM'S EFFECTS ON MANUFACTURING BUT HE BALANCED THIS WITH WHAT HE TERMED "POSITIVE RESULTS" IN STOPPING WAGE SPIRAL INCREASES. HE WAS CONCERNED ABOUT DOWNTURN IN QUEBEC CONSTRUCTION INDUSTRY AND SPATE OF STRIKES IN QUEBEC TURNING OFF FOREIGN INVESTORS. HOWEVER, HE CLAIMED (PROBABLY BECAUSE HE WAS FRENCH-CANADIAN) THAT QUEBEC WORKERS WERE MOST PRODUCTIVE WORKERS IN CANADA, AND THIS PRO-LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 OTTAWA 03659 102213Z

DUCTIVITY OFFSET THEIR PROPENSITY TO STRIKE.

8. GREENSHIELDS ECONOMIST WAS FAVORABLY IMPRESSED BY GOC WHITE PAPER ON BANKING LEGISLATION AND WELCOMED PROPOSALS ALLOWING FOREIGN BANKS BECOME CHARTERED BANKS. HE DIDN'T THINK NEW RESTRICTIONS ON BANKS WERE PARTICULARLY ONEROUS AND, AS MEMBER OF BROKERAGE FIRM, HE BELIEVED BANKS SHOULD NOT BE ALLOWED UNDERWRITE SECURITIES.

9. AS ECONOMIST, HE WELCOMED FINMIN MACDONALD'S STATEMENT OF SEPTEMBER 7 (SEE OTTAWA 3612) ON WINDING UP MANDATORY CONTROL PROGRAM. THIS STATEMENT, WHICH REPUDIATED PERMANENT CONTROLS, WAS, HE BELIEVED, FIRST STEP BY GOC IN EASING BUSINESSMEN'S FEARS RE THEIR FUTURE

IN CANADA. HE THOUGHT CONTROL PROGRAM WOULD PROBABLY BE PHASED OUT IN SUMMER OF 1977 SINCE INFLATION RATE (AS MEASURED BY CPI INCREASE) WOULD BE LOW ENOUGH FOR GOC CLAIM SUCCESS FOR CONTROLS. IN FACT, HE THOUGHT CPI RATE OF INCREASE FOR 1976 WOULD BE BELOW 8 PERCENT, AND GOC COULD THEN SAY THAT TARGER HAD BEEN REACHED. AGAIN REFERRING TO GENERAL THRUST OF MACDONALD'S STATEMENT, HE BELIEVED THAT GOC WAS BECOMING WORRIED ABOUT LOWERED CAPITAL INVESTMENT HERE AND FACT THAT BUSINESSMEN WERE BECOMING INCREAINGLY HOSTILE TO CONTROL PROGRAM. HE PRAISED BANK OF CANADA GOVERNOR BOUEY FOR MORE RESTRICTIVE MONETARY POLICY, AND HE THOUGHT GOVERNMENTS AT ALL LEVELS IN CANADA WERE NOW SHOWING SOME RESPONSIBILITY IN CURBING SPENDING. HE TOO VOICED CONCERN, HOWEVER, ABOUT CANADA'S CURRENT BALANCE OF PAYMENTS DEFICITS, ESPECIALLY IN SERVICE PAYMENTS, BUT HE DID NOT THINK THAT BANK OF CANADA WOULD TAKE ACTION IN NEAR FUTURE TO LOWER INTEREST RATES.

10. IN ALL CONVERSATIONS, EMBOFF TRIED OBTAIN BEST GUESSES ON NEAR-TERM OUTLOOK FOR EXCHANGE RATES. BANK OF MONTREAL REPS SAID THEY HAD BEEN WRONG FOR MOST OF 1976 ON FORECASTING WHEN CANADIAN DOLLAR WOULD RETURN TO PAR WITH U.S. DOLLAR. THEY THOUGHT PAR WOULD BE REACHED BY END OF YEAR BUT WERE RELUCTANT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 OTTAWA 03659 102213Z

TO MAKE FIRM PREDICTION. OTHER BANK REPS SAID CANADIAN DOLLAR SHOULD BE ABOVE PAR FOR REST OF YEAR BECAUSE BANK OF CANADA WILL NOT EASE INTEREST RATES, AND GREENSHIELDS REP SAID HE COULD SEE CANADIAN DOLLAR TRADING AT ABOUT US\$0.95 IN MID-1977. ENDERS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOCUMENTS, DIPLOMATIC DISCUSSIONS, GOVERNMENT REACTIONS, BANK LAW, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OTTAWA03659
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760343-0750
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760973/aaaackbr.tel
Line Count: 207
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 OTTAWA 3574
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 13 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 APR 2004 by greeneet>; APPROVED <03 AUG 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REACTION TO GOC WHITE PAPER ON BANK LEGISLATION
TAGS: EFIN, CA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006